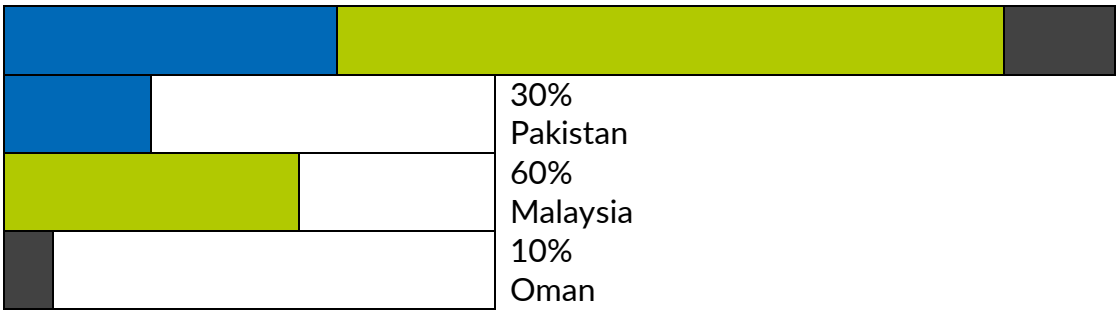
Chapter 4: Findings of the Analysis and Discussion

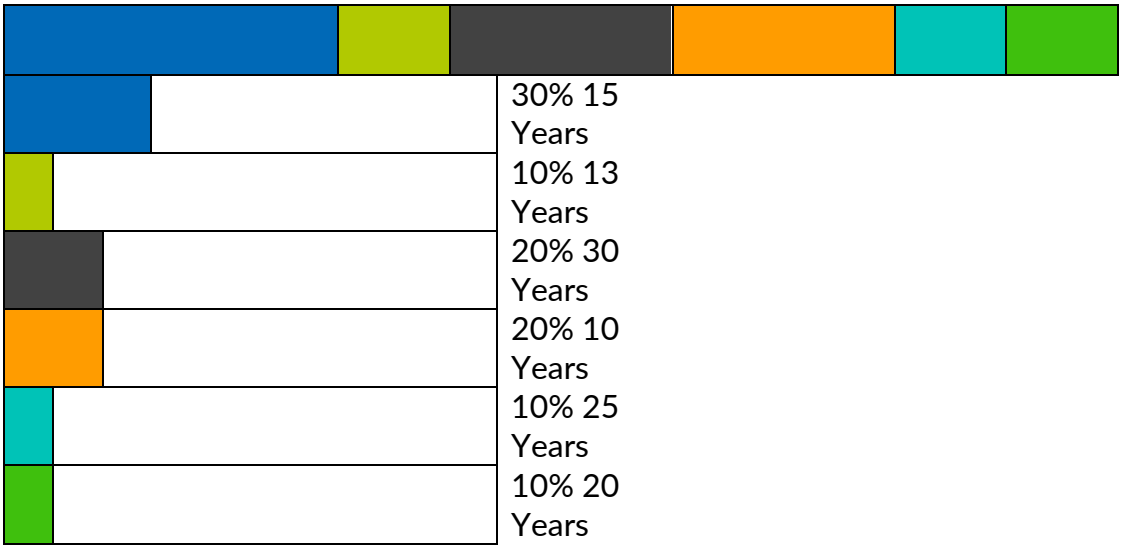
Due to time constraint unavailability of participants this pilot study is based on a single interview conducted from a *Shari'ah* scholar who is also a practitioner. The data is analyzed manually. Quirkos 2.4 software will be used for analysis of data in this thesis when data from other participant is also collected.

Respondents' Demographic Summary

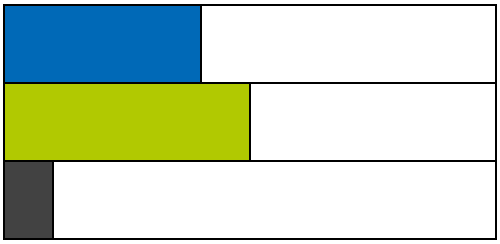
Country



Experience

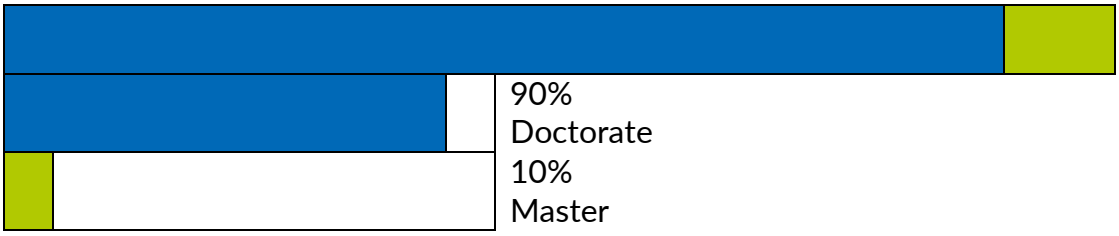


Profession



40% Academician in Islamic Finance
50% Academician in Islamic Finance & Shariah Scholar
10% Islamic Finance Professional

Qualification



90% Doctorate
10% Master

Sources Summary

Title	Author	Date and Time	Length	Quotes #
Respondent 1	Muhammad Fahim	11/01/2025	7623	28
Respondent 2	Muhammad Fahim	11/01/2025	6664	23
Respondent 3	Muhammad Fahim	17/01/2025	7619	21
Respondent 4	Muhammad Fahim	18/01/2025	5025	9
Respondent 5	Muhammad Fahim	09/02/2025	7268	23
Respondent 6	Muhammad Fahim	09/02/2025	8089	9
Respondent 7	Muhammad Fahim	09/02/2025	6160	11
Respondent 8	Muhammad Fahim	13/03/2025	6164	12
Respondent 9	Muhammad Fahim	15/03/2025	7922	14
Respondent 10	Muhammad Fahim	15/03/2025	7200	8

Source Summary Table

Parent Code	Child Code	Description
Diminishing Musharakah	Rawaj (Circulation)	This code contains the quotations that deals with the undesirable consequences of Diminishing Musharakah, an innovative Islamic financial product
	Wuduh (Clarity)	
	Thubat (Stability)	
	Adl (Justice)	
	Tanmiyah (Growth and Development)	
Commodity Murabaha	Rawaj (Circulation)	This code contains the quotations that deals with the undesirable consequences of Commodity Murabaha, an innovative Islamic financial product
	Wuduh (Clarity)	
	Thubat (Stability)	
	Adl (Justice)	
	Tanmiyah (Growth and Development)	
Currency Salam	Rawaj (Circulation)	This code contains the quotations that deals with the undesirable consequences of Currency Salam, an innovative Islamic financial product
	Wuduh (Clarity)	
	Thubat (Stability)	
	Adl (Justice)	
	Tanmiyah (Growth and Development)	
Issues with Innovation	Structural Issues	This code cover all the quotations concern with the issues associated with innovative Islamic financial products
	Philosophical Conflict	
	Risk Sharing & Profit Distribution	
	Legalistic Focus	
Objectives of IF		This code cover all the quotations concern with the desirable objectives of Islamic financial products and also how to overcome undesirable consequences of Islamic financial innovations.

Code Description Table

Parent Code	**Quotations**
Diminishing Musharakah	44
Commodity Murabaha	49
Currency Salam	23
Issues with Innovation	19
Objectives of IF	23
Total Quotations	**158**
Parent Codes	**5**

Child Codes	**19**

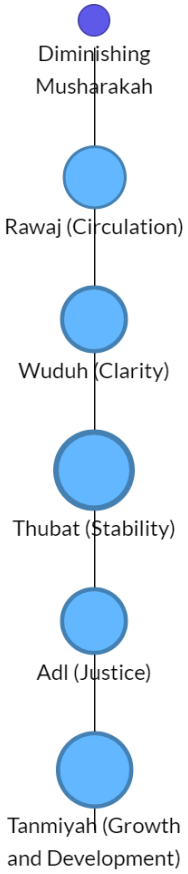
Figure: Main Canvas Visualization

4.1 Case 01: Diminishing Musharakah

Discussion and Commentary

Evidences from Analysis

Case 01: Diminishing Musharakah											
Parameter/Code	**Quotations**	**R1**	**R2**	**R3**	**R4**	**R5**	**R6**	**R7**	**R8**	**R9**	**R10**
Rawaj (Circulation)	7	1	1	1	1	1	0	0	1	0	1
Wuduh (Clarity)	8	0	2	1	1	2	1	1	0	0	0
Thubat (Stability)	11	2	1	2	1	1	1	0	1	1	1
Adl (Justice)	8	2	1	1	0	1	1	0	1	1	0
Tanmiyah (Growth and Development)	10	1	1	1	1	1	1	1	2	1	0
Total Quotations	**44**	**6**	**6**	**6**	**4**	**6**	**4**	**2**	**5**	**3**	**2**



Rawaj (Circulation)

Diminishing Musharakah does have potential for wealth circulation because it involves shared ownership in assets. However, it often functions in a manner that is more akin to debt financing, which means that the wealth created is still largely tied to the financial institution, and the circulation doesn't always reach productive economic activities.

Source: *Respondent 2*

Commodity Murabahah and Diminishing Musharakah tend to concentrate wealth, particularly in financial institutions, rather than promoting equitable wealth distribution.

Source: *Respondent 3*

The practice of Diminishing Musharakah is typically employed in long-term contracts, especially in real estate. The circulation of capital is somewhat restricted due to the slow and segmented buy-back process. This could hinder the full liquidity of assets in the economy.

Source: *Respondent 4*

Rawaj, or the circulation of wealth, is a core objective of Islamic finance. Unfortunately, products like Commodity Murabahah and Diminishing

Musharakah fail to fully promote this circulation.

Source: *Respondent 5*

Diminishing Musharakah is meant to support circulation, but the legal stratagems involved often lead to a situation where wealth does not truly circulate. Rather than financing real, productive economic activity, it tends to finance speculative or asset-based investments.

Source: *Respondent 8*

Diminishing Musharakah, if not properly structured, can result in a lack of genuine circulation of wealth. In practice, it tends to concentrate wealth in the hands of the financial institutions, which can be seen in the over-financing of assets rather than financing productive ventures.

Source: *Respondent 10*

The intention behind rawaj is to promote the circulation of wealth for the common good, but in the case of products like Commodity Murabahah and Diminishing Musharakah, this intention is often compromised. These products are typically debt-driven, and while they technically move money around, they don't contribute to real economic activity or wealth distribution in a socially just manner.

Source: *Respondent 1*

Wuduh (Clarity)

Clarity is a central tenet of Islamic finance, and unfortunately, many Islamic products fall short in this area.

Source: *Respondent 2*

Diminishing Musharakah, while the ownership transfer is more transparent, the profit-sharing mechanisms are not always clearly explained to consumers, leading to confusion about the total cost of ownership.

Source: *Respondent 2*

In terms of clarity, there's a significant gap. The transparency of products like Commodity Murabahah and Diminishing Musharakah often becomes an issue.

Source: *Respondent 3*

This product provides clarity in terms of shared ownership and repayment terms. However, confusion arises when terms involving profit sharing and principal repayments are not sufficiently differentiated or when compounding profit is embedded in the installment calculations, leading to concerns regarding interest-like returns, which violate the essence of Shari’ah.

Source: *Respondent 4*

Clarity is a significant issue in these financial products. While the contracts may be Shari'ah-compliant in the formal sense, the economic substance often lacks transparency.

Source: *Respondent 5*

The legalistic approach to Shari'ah compliance often emphasizes meeting the letter of the law rather than ensuring the spirit of Islamic finance is upheld. This creates confusion and undermines the clarity that should be inherent in all financial transactions, leading to a disconnect between form and substance.

Source: *Respondent 5*

Transparency has always been a concern in Islamic finance, especially with products like Musharakah.

Source: *Respondent 6*

As for wuduh (clarity), some of the practices in products like Commodity Murabahah or Diminishing Musharakah lack the transparency that Islamic finance mandates. This lack of clarity can lead to doubts about the actual ownership and the flow of funds, making it difficult for stakeholders to fully understand the underlying risks. When the contractual terms aren't clearly defined, it compromises both the clarity of the transaction and the trust in the system.

Source: *Respondent 7*

Thubat (Stability)

Diminishing Musharakah, although it involves shared ownership, is still based on debt structures, which are inherently less stable than equity-based models like Musharakah. The reliance on debt payments can make the product more susceptible to market shocks, especially when customers default.

Source: *Respondent 2*

When looking at stability (thubat), Commodity Murabahah and Diminishing Musharakah face long-term challenges.

Source: *Respondent 3*

Diminishing Musharakah, in particular, is often criticized for being a debt-based contract that doesn't fully align with the risk-sharing principles of Islamic finance. If the asset base and liabilities aren't managed properly, it could undermine financial stability.

Source: *Respondent 3*

Diminishing Musharakah is intended to be stable, but its implementation may not always be robust. For instance, it can have issues where a formula derived from conventional interest-based models leads to compounding, undermining its stability and proof in Shari'ah compliancee

Source: *Respondent 4*

Unfortunately, products like Diminishing Musharakah and Commodity Murabahah are often too debt-heavy. The reliance on debt-based transactions does not provide the same resilience as equity-based financing, which is based on risk-sharing. As we've seen in previous financial crises, systems based on debt are more susceptible to systemic shocks. Therefore, while these products may appear stable in the short-term, they are inherently vulnerable and fail to promote long-term financial stability.

Source: *Respondent 5*

However, stability still remains an issue in a country like Pakistan, where uncertainty and regulatory challenges persist. Islamic banks must overcome agency problems and moral hazards to ensure that these products contribute to long-term economic stability.

Source: *Respondent 6*

Diminishing Musharakah faces challenges in terms of stability. If not structured correctly, it can mimic interest-based systems, undermining long-term stability. It can also create asymmetric ownership over time, which does not promote real wealth accumulation for all parties.

Source: *Respondent 8*

The lack of genuine risk-sharing means that financial institutions remain insulated from risks, while clients bear most of the burden.

Source: *Respondent 9*

The problem is that these products are often not fully aligned with the maqasid al-Shari'ah in terms of promoting stable and sustainable economic growth.

Source: *Respondent 10*

Unfortunately, I do not believe that products like Diminishing Musharakah and Commodity Murabahah inherently contribute to stability. These products still operate within the neoclassical financial framework, which is driven by a profit-maximizing agenda, often at the cost of broader economic stability.

Source: *Respondent 1*

If Islamic banks continue operating within this framework, they risk perpetuating instability rather than promoting a balanced economy.

Source: *Respondent 1*

Adl (Justice)

In Diminishing Musharakah, the profit-sharing and risk-sharing are often skewed in favor of the bank, with the client taking on most of the financial burden. The bank may benefit from a larger share of the asset's value while the customer is left paying more than the actual value of the asset.

Source: *Respondent 2*

the issue with Diminishing Musharakah and Commodity Murabahah is that the financial institutions generally bear minimal risk while the borrower or customer assumes a larger portion of the financial burden. This creates an imbalance in the distribution of both benefits and risks.

Source: *Respondent 3*

The principle of justice (adl) in Islamic finance demands equitable risk-sharing and fair profit-sharing. Unfortunately, many Islamic financial products do not live up to these expectations.

Source: *Respondent 5*

However, there are still challenges when it comes to Diminishing Musharakah, particularly if the profit-sharing ratios are not clearly defined or if the customer is at a disadvantage due to poor risk management on the bank's part.

Source: *Respondent 6*

Often, the profit-sharing mechanism ends up favoring financial institutions over the individuals, especially in cases where the terms are not clearly communicated.

Source: *Respondent 8*

Diminishing Musharakah, while designed to involve joint ownership, often fails to distribute risk fairly. The bank, for instance, often benefits more than the client, and the customer may end up with excessive liabilities that are disproportionate to their share of the asset.

Source: *Respondent 9*

The current framework of Islamic finance has a distorted view of justice.

Source: *Respondent 1*

Diminishing Musharakah, despite being viewed as an equity-sharing product, often fails to distribute risk fairly. In practice, the bank retains most of the

benefits while the customer is left bearing the majority of the financial burden. This unfair allocation of profit and risk results in a situation where the bank benefits disproportionately, which goes against the principle of justice in Islam.

Source: *Respondent 1*

Tanmiyah (Growth and Development)

Diminishing Musharakah does have the potential to contribute to growth if used for productive investments, such as financing businesses or infrastructure. However, in practice, it is often used in real estate transactions, which does not always lead to economic development.

Source: *Respondent 2*

These products, while helpful for liquidity in the short-term, do not necessarily contribute to real economic growth.

Source: *Respondent 3*

While Diminishing Musharakah aims to support home ownership and thus contribute to wealth generation, its practice as currently implemented may not fully contribute to broader economic development due to its dependence on fixed return models, which limit equity participation

Source: *Respondent 4*

Economic growth should be the result of productive investments that promote social welfare and justice. Unfortunately, Diminishing Musharakah and Commodity Murabahah do not significantly contribute to real economic development. These products tend to focus on debt management and short-term liquidity rather than financing productive sectors like manufacturing, infrastructure, or education.

Source: *Respondent 5*

Government support and a strong regulatory framework will be crucial to ensure the sustainability and growth of these products.

Source: *Respondent 6*

I believe Islamic financial products must contribute to sustainable development, both socially and economically.

Source: *Respondent 7*

Diminishing Musharakah, especially, has raised concerns about its alignment with Maqasid al-Shari'ah. In fact, it has been critiqued for its reliance on legal form over economic substance, which mirrors conventional financial practices rather than promoting Islamic finance’s ethical foundations.

Source: *Respondent 8*

Diminishing Musharakah and Commodity Murabahah, as they are often structured today, tend to focus more on financialization than actual economic development.

Source: *Respondent 8*

Unfortunately, many of the current Islamic finance products, like Commodity Murabahah and Diminishing Musharakah, do not adequately address real economic development.

Source: *Respondent 9*

Unfortunately, products like Diminishing Musharakah and Commodity Murabahah fail to significantly contribute to economic development in the true sense. These products are often used for short-term liquidity management or speculative investment, rather than supporting productive projects that generate long-term economic growth. The overemphasis on debt rather than equity-based investment leads to an economy that is not sustainable or growth-oriented.

Source: *Respondent 1*

4.2 Case 02: Commodity Murabahah

Discussion and Commentary

Evidences from Analysis

This section provides evidences to the case, Commodity Murabaha. The explored quotations categorize in five sub codes (child codes) based on their similar meaning and relevancy. These child codes include Rawaj (Circulation), Wuduh (Clarity), Thubat (Stability), Adl (Justice), and Tanmiyah (Growth and Development). Evidences are provided in the below orange colored quotations that extracted from the participants interview. In addition, the following Table 17 shows the number of quotations extracted from each interview of each participants regarding the Case,

Commodity Murabaha. This shows that Respondent 2 contributed more information followed by Respondent 1, Respondent 3, and Respondent 5. Similarly, Figure 17 is the tree view of parent code, Commodity Murabaha, and their concern child codes. The big bubble, Tanmiyah (Growth and Development), indicates that this issue highlighted more by the respondents while the small bubbles, Rawaj (Circulation) and Adl (Justice), discussed comparatively less during the interviews.

Case 02: Commodity Murabaha											
Parameter/Code	**Quotations**	**R1**	**R2**	**R3**	**R4**	**R5**	**R6**	**R7**	**R8**	**R9**	**R10**
Rawaj (Circulation)	8	1	1	1	1	1	0	0	1	1	1
Wuduh (Clarity)	11	2	2	2	1	2	0	1	0	1	0
Thubat (Stability)	10	2	1	1	0	1	1	0	1	1	2
Adl (Justice)	8	2	1	1	1	1	0	0	1	1	0
Tanmiyah (Growth and Development)	12	1	2	2	1	1	1	2	1	1	0
Total Quotations	**49**	**8**	**7**	**7**	**4**	**6**	**2**	**3**	**4**	**5**	**3**

Table 17

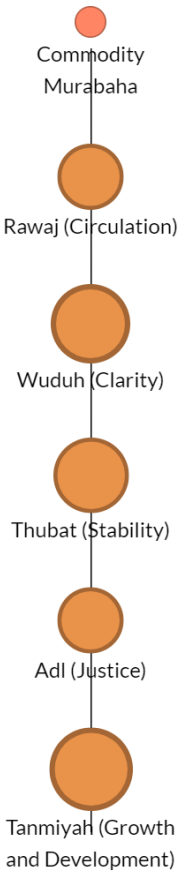


Table 17

Rawaj (Circulation)

Commodity Murabahah is primarily a tool for liquidity management and doesn't contribute significantly to economic development or the circulation of wealth in productive sectors.

Source: *Respondent 2*

Commodity Murabahah and Diminishing Musharakah tend to concentrate wealth, particularly in financial institutions, rather than promoting equitable wealth distribution.

Source: *Respondent 3*

excessive reliance on it as a financing tool can result in a situation where debt transactions dominate, restricting real economic transactions and thus limiting true circulation of wealth

Source: *Respondent 4*

Rawaj, or the circulation of wealth, is a core objective of Islamic finance. Unfortunately, products like Commodity Murabahah and Diminishing Musharakah fail to fully promote this circulation.

Source: *Respondent 5*

In Commodity Murabahah, the same issue arises—wealth is tied up in speculative transactions rather than creating real economic value.

Source: *Respondent 8*

Commodity Murabahah often mimics a loan arrangement and doesn't contribute to real wealth creation, which undermines the concept of circulation (rawaj) in Islamic finance.

Source: *Respondent 9*

Commodity Murabahah often involves speculative trading rather than contributing to real, tangible economic activity.

Source: *Respondent 10*

The intention behind rawaj is to promote the circulation of wealth for the common good, but in the case of products like Commodity Murabahah and Diminishing Musharakah, this intention is often compromised. These products are typically debt-driven, and while they technically move money around, they don't contribute to real economic activity or wealth distribution in a socially just manner.

Source: *Respondent 1*

Wuduh (Clarity)

Clarity is a central tenet of Islamic finance, and unfortunately, many Islamic products fall short in this area.

Source: *Respondent 2*

Commodity Murabahah, for instance, often suffers from lack of transparency regarding the profit margin and the underlying asset. Consumers may not fully understand that the transaction is essentially a debt-based arrangement disguised as a sale.

Source: *Respondent 2*

In terms of clarity, there's a significant gap. The transparency of products like Commodity Murabahah and Diminishing Musharakah often becomes an issue.

Source: *Respondent 3*

in Commodity Murabahah, while the concept is meant to involve an asset transaction, it’s often just a paper transaction with no real underlying exchange of goods. This creates confusion and lack of clarity, especially for consumers. The terms and structures of these products can often be opaque, with hidden costs or fees that are not fully disclosed, which makes it difficult for the average consumer to understand what they are entering into. This lack of clarity also undermines trust in the system, which is a core tenet of Shari'ah.

Source: *Respondent 3*

Commodity Murabaha can be clear in terms of its markup pricing and the exchange of commodities, its structure often leads to significant legal and financial ambiguities. When it is overused at the macro level, there is a tendency for it to mimic conventional interest-bearing loans

Source: *Respondent 4*

Clarity is a significant issue in these financial products. While the contracts may be Shari’ah-compliant in the formal sense, the economic substance often lacks transparency.

Source: *Respondent 5*

The legalistic approach to Shari'ah compliance often emphasizes meeting the letter of the law rather than ensuring the spirit of Islamic finance is upheld. This creates confusion and undermines the clarity that should be inherent in all financial transactions, leading to a disconnect between form and substance.

Source: *Respondent 5*

As for wuduh (clarity), some of the practices in products like Commodity Murabahah or Diminishing Musharakah lack the transparency that Islamic finance mandates. This lack of clarity can lead to doubts about the actual

ownership and the flow of funds, making it difficult for stakeholders to fully understand the underlying risks. When the contractual terms aren't clearly defined, it compromises both the clarity of the transaction and the trust in the system.

Source: *Respondent 7*

Unfortunately, many products, especially Commodity Murabahah, lack clarity in their economic substance. While the contracts are presented as Shari'ah-compliant, the actual transaction often lacks genuine asset ownership, leading to confusion and opacity. The profit margins in Commodity Murabahah are not always transparent to the consumer, and customers often don't fully understand the underlying transactional nature.

Source: *Respondent 9*

Wuduh requires full transparency, but in practice, Islamic financial products like Commodity Murabahah often fall short. The contractual structure of Commodity Murabahah can be confusing, especially for customers who may not fully understand the real nature of the transaction.

Source: *Respondent 1*

Commodity Murabahah is used more as a loan disguised as a sale, which can lead to misunderstanding and a lack of clarity in the true economic substance of the transaction. This lack of clarity is a serious issue, as it prevents the consumer from truly understanding the financial product they are engaging with, undermining trust in the Islamic financial system.

Source: *Respondent 1*

Thubat (Stability)

Commodity Murabahah is often used for short-term liquidity management but doesn't contribute to long-term stability, as it doesn't involve real risk-sharing. The profit margins in Commodity Murabahah can also fluctuate depending on the market price of commodities, adding an element of instability.

Source: *Respondent 2*

When looking at stability (thubat), Commodity Murabahah and Diminishing Musharakah face long-term challenges.

Source: *Respondent 3*

Unfortunately, products like Diminishing Musharakah and Commodity Murabahah are often too debt-heavy. The reliance on debt-based transactions does not provide the same resilience as equity-based financing, which is based on risk-sharing. As we've seen in previous financial crises, systems based on

debt are more susceptible to systemic shocks. Therefore, while these products may appear stable in the short-term, they are inherently vulnerable and fail to promote long-term financial stability.

Source: *Respondent 5*

However, stability still remains an issue in a country like Pakistan, where uncertainty and regulatory challenges persist. Islamic banks must overcome agency problems and moral hazards to ensure that these products contribute to long-term economic stability.

Source: *Respondent 6*

Commodity Murabahah, by contrast, is susceptible to market fluctuations and is not always linked to the real economy.

Source: *Respondent 8*

The lack of genuine risk-sharing means that financial institutions remain insulated from risks, while clients bear most of the burden.

Source: *Respondent 9*

Commodity Murabahah, especially when used excessively for speculative trading, does not contribute to long-term stability.

Source: *Respondent 10*

The problem is that these products are often not fully aligned with the maqasid al-Shari'ah in terms of promoting stable and sustainable economic growth.

Source: *Respondent 10*

Unfortunately, I do not believe that products like Diminishing Musharakah and Commodity Murabahah inherently contribute to stability. These products still operate within the neoclassical financial framework, which is driven by a profit-maximizing agenda, often at the cost of broader economic stability.

Source: *Respondent 1*

If Islamic banks continue operating within this framework, they risk perpetuating instability rather than promoting a balanced economy.

Source: *Respondent 1*

Adl (Justice)

Commodity Murabahah also poses issues of justice because the profit margin is fixed, and the consumer may end up paying more than necessary, with little opportunity for mutual benefit.

Source: *Respondent 2*

the issue with Diminishing Musharakah and Commodity Murabahah is that the financial institutions generally bear minimal risk while the borrower or customer assumes a larger portion of the financial burden. This creates an imbalance in the distribution of both benefits and risks.

Source: *Respondent 3*

Although the original structure of Commodity Murabaha aims for justice by ensuring the transaction is free from interest, the excessive use of such products may ultimately lead to injustice, as it facilitates the accumulation of wealth for the already wealthy, rather than promoting equitable distribution

Source: *Respondent 4*

The principle of justice (adl) in Islamic finance demands equitable risk-sharing and fair profit-sharing. Unfortunately, many Islamic financial products do not live up to these expectations.

Source: *Respondent 5*

n Commodity Murabahah, the markup and fixed profit margins can lead to inequitable arrangements, particularly for those at the receiving end of financial inclusion efforts.

Source: *Respondent 8*

Commodity Murabahah is even more problematic, as it essentially operates like a loan, but with the added complication of profit markup, leading to the client paying more than the actual value of the underlying asset. This results in an inequitable distribution of wealth and benefits.

Source: *Respondent 9*

The current framework of Islamic finance has a distorted view of justice.

Source: *Respondent 1*

Commodity Murabahah, which is often used as a liquidity tool, mirrors interest-based loans, where the borrower ends up paying more than the value of the asset, undermining fairness and equity. In both cases, the distribution of benefits is far from just.

Source: *Respondent 1*

Tanmiyah (Growth and Development)

Commodity Murabahah is primarily a tool for liquidity management and doesn't

contribute significantly to economic development or the circulation of wealth in productive sectors.

Source: *Respondent 2*

Commodity Murabahah is primarily focused on liquidity management and does not contribute to real growth or the development of productive sectors. It is more a tool for financial institutions than a means to finance productive economic activity.

Source: *Respondent 2*

These products, while helpful for liquidity in the short-term, do not necessarily contribute to real economic growth.

Source: *Respondent 3*

Commodity Murabahah is often used as a liquidity management tool rather than something that fosters economic development.

Source: *Respondent 3*

It may fail to contribute to the sustainable and ethical economic development envisioned by Maqasid al-Shari'ah

Source: *Respondent 4*

Economic growth should be the result of productive investments that promote social welfare and justice. Unfortunately, Diminishing Musharakah and Commodity Murabahah do not significantly contribute to real economic development. These products tend to focus on debt management and short-term liquidity rather than financing productive sectors like manufacturing, infrastructure, or education.

Source: *Respondent 5*

Government support and a strong regulatory framework will be crucial to ensure the sustainability and growth of these products.

Source: *Respondent 6*

I believe Islamic financial products must contribute to sustainable development, both socially and economically.

Source: *Respondent 7*

Islamic finance, in its purest sense, should prioritize productive economic ventures that help improve the welfare of the community, but the widespread use of commodity murabahah, for example, often does not support real economic activities.

Source: *Respondent 7*

> Diminishing Musharakah and Commodity Murabahah, as they are often structured today, tend to focus more on financialization than actual economic development.
>
> Source: *Respondent 8*

> Unfortunately, many of the current Islamic finance products, like Commodity Murabahah and Diminishing Musharakah, do not adequately address real economic development.
>
> Source: *Respondent 9*

> Unfortunately, products like Diminishing Musharakah and Commodity Murabahah fail to significantly contribute to economic development in the true sense. These products are often used for short-term liquidity management or speculative investment, rather than supporting productive projects that generate long-term economic growth. The overemphasis on debt rather than equity-based investment leads to an economy that is not sustainable or growth-oriented.
>
> Source: *Respondent 1*

4.3 Case 03: Currency Salam

Discussion and Commentary

Evidences from Analysis

This section provides evidences to the case, Currency Salam. The explored quotations categorize in five sub codes (child codes) based on their similar meaning and relevancy. These child codes include Rawaj (Circulation), Wuduh (Clarity), Thubat (Stability), Adl (Justice), and Tanmiyah (Growth and Development). Evidences are provided in the below dark green colored quotations that extracted from the participants interview. In addition, the following Table 18 shows the number of quotations extracted from each interview of each participants regarding the Case, Currency Salam. This shows that Respondent 2 contributed more information

followed by Respondent 1, Respondent 3, and Respondent 5. Similarly, Figure 18 is the tree view of parent code, Currency Salam, and their concern child codes. The big bubble, Thubat (Stability), indicates that this issue highlighted more by the respondents while the small bubbles, Rawaj (Circulation) and Adl (Justice), discussed comparatively less during the interviews.

Case 03: Currency Salam											
Parameter/Code	**Quotations**	**R1**	**R2**	**R3**	**R4**	**R5**	**R6**	**R7**	**R8**	**R9**	**R10**
Rawaj (Circulation)	3	0	1	1	0	0	0	0	1	0	0
Wuduh (Clarity)	4	0	2	0	0	2	0	0	0	0	0
Thubat (Stability)	8	2	1	1	1	0	1	0	0	1	1
Adl (Justice)	3	1	1	0	0	1	0	0	0	0	0
Tanmiyah (Growth and Development)	5	0	2	1	0	0	1	1	0	0	0
Total Quotations	**23**	**3**	**7**	**3**	**1**	**3**	**2**	**1**	**1**	**1**	**1**

Table 18

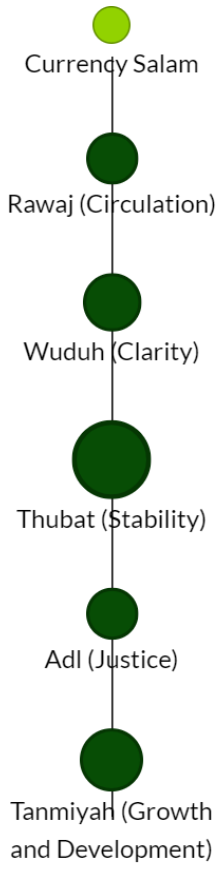


Figure 18

Rawaj (Circulation)

Currency Salam, on the other hand, if used correctly, can promote wealth circulation, especially in sectors like agriculture or trade, by providing advances for goods that are yet to be produced, allowing for more efficient production. However, if misused, it can also lead to speculative practices and not truly benefit the economy.

Source: *Respondent 2*

Currency Salam could have a positive effect by stimulating trade, if it's not implemented in a way that connects to real economic activity, it could lead to short-term liquidity benefits without much long-term value creation. Tawarruq, as often used, is a major example of a practice that circulates debt rather than wealth, which doesn't necessarily contribute to the genuine economic activity that Islamic finance is meant to foster.

Source: *Respondent 3*

Currency Salam does have potential to stimulate trade, but like the others, its impact can be undermined if not properly tied to real economic activity

Source: *Respondent 8*

Wuduh (Clarity)

Clarity is a central tenet of Islamic finance, and unfortunately, many Islamic products fall short in this area.

Source: *Respondent 2*

Currency Salam, by comparison, is generally more transparent, as the terms of payment and delivery are usually clear. However, issues may arise if the goods to be delivered don’t meet the expected quality or quantity, which can create disputes and undermine the clarity of the contract.

Source: *Respondent 2*

Clarity is a significant issue in these financial products. While the contracts may be Shari’ah-compliant in the formal sense, the economic substance often lacks transparency.

Source: *Respondent 5*

The legalistic approach to Shari'ah compliance often emphasizes meeting the letter of the law rather than ensuring the spirit of Islamic finance is upheld. This creates confusion and undermines the clarity that should be inherent in all financial transactions, leading to a disconnect between form and substance.

Source: *Respondent 5*

Thubat (Stability)

Currency Salam, however, can offer more stability if used in sectors that generate real economic output. But if applied for speculative purposes, it can also lead to instability by inflating asset values or misallocating resources.

Source: *Respondent 2*

Currency Salam can contribute to stability if it's tied to productive ventures, but if it's just used for short-term financing, it can exacerbate instability in financial markets.

Source: *Respondent 3*

The stability of Currency Salam depends on the delivery and real economic activity involved. When used incorrectly or in non-productive sectors, it can result in instability in markets

Source: *Respondent 4*

However, stability still remains an issue in a country like Pakistan, where uncertainty and regulatory challenges persist. Islamic banks must overcome agency problems and moral hazards to ensure that these products contribute to long-term economic stability.

Source: *Respondent 6*

The lack of genuine risk-sharing means that financial institutions remain insulated from risks, while clients bear most of the burden.

Source: *Respondent 9*

The problem is that these products are often not fully aligned with the maqasid al-Shari'ah in terms of promoting stable and sustainable economic growth.

Source: *Respondent 10*

Currency Salam could theoretically be more aligned with real economic activities, its frequent misuse for speculative purposes also undermines long-term stability.

Source: *Respondent 1*

If Islamic banks continue operating within this framework, they risk perpetuating instability rather than promoting a balanced economy.

Source: *Respondent 1*

Adl (Justice)

Currency Salam, on the other hand, has the potential to be more just if it's used to support real productive activities like agriculture or infrastructure. However, if misused, it can lead to exploitation of producers by offering advance payments for goods that are overvalued or not delivered on time.

Source: *Respondent 2*

The principle of justice (adl) in Islamic finance demands equitable risk-sharing and fair profit-sharing. Unfortunately, many Islamic financial products do not live up to these expectations.

Source: *Respondent 5*

The current framework of Islamic finance has a distorted view of justice.

Source: *Respondent 1*

Tanmiyah (Growth and Development)

Currency Salam, on the other hand, if used correctly, can promote wealth circulation, especially in sectors like agriculture or trade, by providing advances for goods that are yet to be produced, allowing for more efficient production. However, if misused, it can also lead to speculative practices and not truly benefit the economy.

Source: *Respondent 2*

Currency Salam, when used for its intended purpose in agriculture or infrastructure, has the potential to stimulate economic development by providing producers with the capital they need to grow. However, if misused for speculative purposes, it can lead to market distortions that do not contribute to long-term economic growth.

Source: *Respondent 2*

These products, while helpful for liquidity in the short-term, do not necessarily contribute to real economic growth.

Source: *Respondent 3*

Government support and a strong regulatory framework will be crucial to ensure the sustainability and growth of these products.

Source: *Respondent 6*

I believe Islamic financial products must contribute to sustainable development, both socially and economically.

Source: *Respondent 7*

4.4 Issues with Innovations

Discussion and Commentary

Regarding issues with the innovative Islamic financial products, four fundamental issues explored. The first issue is about the structure of innovative Islamic financial products that seems the exact replica of their traditional counterpart. Diminishing Musharakah, Commodity Murabahah, and Currency Salam designed in such a way that focus on achieving the same objectives that offer by their conventional alternatives, fulfilling liquidity demands and speculative transactions. Second issue is concern with the philosophical underpinning of the contemporary Islamic financial products. The foundation of traditional financial products based on the neoclassical economic framework and Capitalistic belief that conflict with the Islamic philosophy of Maqasid al-Shariah. Thirdly, innovative Islamic financial products designed in such a way that exactly mirror the traditional financial products that leads to achieving the identical objectives of debt creation, profit maximization, concentration of wealth in the hands of wealthy, and unjustly approach towards risk sharing. Last but not the least, fulfilling legal requirements of the Islamic financial contracts and giving less importance to the ethical, social, and economic aspects will leads so serious consequences in the future.

Evidences from Analysis

This section provides evidences to the theme, Issue with Innovation in Islamic finance. The explored issues categorize in four groups based on their similar nature and results. These issues include structural issues, philosophical issues, issue related to profit and risk sharing, and focus on legal form over Shariah and economic substance. Evidences are provided in the below yellow colored quotations that

extracted from the participants interview. In addition, the following Table 19 shows the number of quotations extracted from each interview of each participants regarding the theme Issues with Innovation. This shows that Respondent 1 contributed more information followed by Respondent 5. Similarly, Figure 19 is the tree view of parent code, Issues with Innovation, and their concern child codes. The big bubble, Structural Issues, indicates that this issue highlighted more by the respondents while the small bubble, Risk Sharing & Profit Distribution, discussed comparatively less during the interviews.

Issues with Innovation											
Parameter/Code	**Quotations**	**R1**	**R2**	**R3**	**R4**	**R5**	**R6**	**R7**	**R8**	**R9**	**R10**
Risk Sharing & Profit Distribution	1	0	0	0	0	1	0	0	0	0	0
Legalistic Focus	4	0	0	0	0	2	0	0	0	1	1
Structural Issues	12	3	0	2	0	2	0	2	1	1	1
Philosophical Conflict	2	2	0	0	0	0	0	0	0	0	0
	19										

Table 19

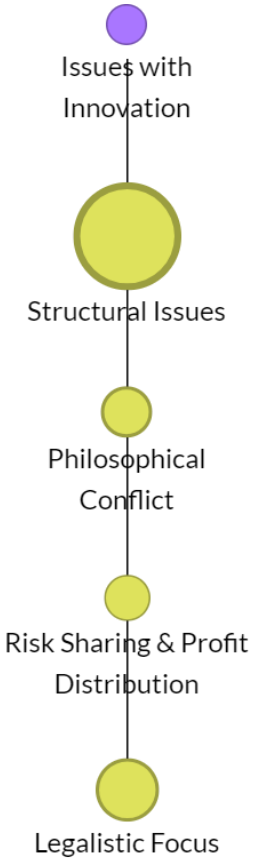


Figure 19

Structural Issues

The underlying concern in Islamic finance is that many of these products are replicas of conventional financial products. They are structured in ways that may be Shari'ah-compliant in form, but they often don't align with the core principles of Islamic finance, which should promote genuine economic activity and social justice.

Source: *Respondent 3*

When looking at stability (thubat), Commodity Murabahah and Diminishing Musharakah face long-term challenges. These products may appear stable on the surface, but they often mimic conventional financing systems that depend heavily on speculative behavior.

Source: *Respondent 3*

My critique of these products centers around their legalistic nature. Many of the Islamic finance products such as Diminishing Musharakah and Commodity Murabahah are structured in a way that mimics conventional debt products. The focus is on Shari'ah compliance without truly considering the underlying values and objectives of Islamic finance.

Source: *Respondent 5*

These products, in many cases, resemble interest-based loans, and they don't significantly differ from conventional financial products in their economic impact.

Source: *Respondent 5*

structure does not lead to unfair financial arrangements. It's vital that the agreement allows for equitable wealth distribution and that it doesn't lead to concentration of wealth in one segment of society.

Source: *Respondent 7*

Islamic finance cannot simply copy conventional systems with minor modifications.

Source: *Respondent 7*

Diminishing Musharakah and Commodity Murabahah, as they are often structured today, tend to focus more on financialization than actual economic development.

Source: *Respondent 8*

Products like Diminishing Musharakah, Commodity Murabahah, and Currency Salam are, in many cases, not innovative and are merely replicas of conventional products.

Source: *Respondent 9*

Diminishing Musharakah, if not properly structured, can result in a lack of genuine circulation of wealth.

Source: *Respondent 10*

For instance, Diminishing Musharakah and Commodity Murabahah are structured in a way that mirrors conventional debt-based financing. This doesn't contribute to the economic justice and risk-sharing principles that Islam emphasizes. The focus should be on equity-based solutions, but these products still rely heavily on debt structures, which doesn't align with the broader Islamic economic principles of promoting justice and eliminating exploitation.

Source: *Respondent 1*

Commodity Murabahah transactions are often used as liquidity tools rather than mechanisms that fund productive ventures. Instead of promoting investment in real economic activities, these financial products tend to lead to financialization, where money is moved in and out of speculative transactions without benefiting the larger economy.

Source: *Respondent 1*

The contractual structure of Commodity Murabahah can be confusing, especially

for customers who may not fully understand the real nature of the transaction.

Source: *Respondent 1*

Philosophical Conflict

the current Islamic banking framework is largely based on neoclassical economics, which conflicts with the true objectives of Maqasid al-Shari'ah. These products, while Shari'ah-compliant in form, often do not fulfill the spirit of Islamic finance.

Source: *Respondent 1*

Unfortunately, I do not believe that products like Diminishing Musharakah and Commodity Murabahah inherently contribute to stability. These products still operate within the neoclassical financial framework

Source: *Respondent 1*

Risk Sharing & Profit Distribution

The principle of justice (adl) in Islamic finance demands equitable risk-sharing and fair profit-sharing. Unfortunately, many Islamic financial products do not live up to these expectations.

Source: *Respondent 5*

Legalistic Focus

Economic growth should be the result of productive investments that promote social welfare and justice. Unfortunately, Diminishing Musharakah and Commodity Murabahah do not significantly contribute to real economic development. These products tend to focus on debt management and short-term liquidity rather than financing productive sectors like manufacturing, infrastructure, or education.

Source: *Respondent 5*

The legalistic focus of Islamic finance has caused many institutions to replicate conventional finance without considering its long-term impact on economic development.

Source: *Respondent 5*

If Islamic financial institutions continue to focus on formal compliance without

> addressing these issues, the system will fail to fulfill the ethical and just values embedded in Islamic finance.
>
> Source: *Respondent 9*

> I've studied these products extensively, and the primary concern I have regarding products like Diminishing Musharakah and Commodity Murabahah is that they often focus too much on the legal technicalities of the contract (aqd) rather than the broader objectives of Islamic law, i.e., maqasid al-Shari'ah.
>
> Source: *Respondent 10*

4.5 Objectives of IF – Recommendation for Future Correction

Discussion and Commentary

Theoretically, due to the equity-based nature of Diminishing Musharakah, Commodity Murabaha, and Currency Salam these products really promote social and economic justice. However, their mimicking structure questioned the real objectives of Islamic finance as they often use purely for fulfilling the liquidity demands. It concluded from the views of all the respondents that the contemporary innovative Islamic financial products must be revisit to ensure achievements of the fundamental objectives of Maqasid al-Shariah alongside with economic and social development. Furthermore, due to legal barriers, the contemporary innovative products primarily focus of form while less concentrated toward their spiritual and ethical dimensions therefore, regarding the importance of Shariah compliance in both form and spirit, a greater market awareness is very necessary. The study concluded that Currency Salam has the great potential if it use in the agriculture and purchase of goods for the real manufacturing sectors. In addition, both Musharakah and Murabaha potentially could be important structures to the SME sector that has very significant effect on the economic development of a country like Pakistan. To sum-up, to develop new

innovative products, Islamic financial institutions need to adopt a holistic guideline that address the achievement of Maqasid al Shariah, social development, and economic development and stability.

Evidences from Analysis

This section provides evidences to the theme, Objectives of Islamic Finance, which actually concern with the way forward for Islamic financial innovations regarding designing and development of new innovative products. These evidences are provided in the below dark green colored quotations that extracted from the participants interview. In addition, the following Table 20 shows the number of quotations extracted from each interview of each participants regarding the theme Objectives of IF. This shows that Respondent 1 contributed more with respect to others.

Objectives of IF										
Quotations	**R1**	**R2**	**R3**	**R4**	**R5**	**R6**	**R7**	**R8**	**R9**	**R10**
23	6	3	3	0	3	1	3	1	3	0
23										

Table 20

Objectives of IF

> Currency Salam, on the other hand, if used correctly, can promote wealth circulation, especially in sectors like agriculture or trade, by providing advances for goods that are yet to be produced, allowing for more efficient production.
>
> Source: *Respondent 2*

> while Diminishing Musharakah, Commodity Murabahah, and Currency Salam have potential in certain areas, they do not fully align with the core principles of Maqasid al-Shari'ah, especially in terms of wealth circulation, justice, and real economic development.
>
> Source: *Respondent 2*

> There is a need for greater transparency, fairer profit-sharing, and equity-based financing models like Musharakah and Mudarabah, which more accurately reflect the values and objectives of Islamic finance.
>
> Source: *Respondent 2*

The most pressing need is to move away from Tawarruq-based contracts.

Source: *Respondent 3*

Islamic finance must shift towards equity-based contracts that share risk and reward more fairly and promote the real economy rather than just providing liquidity.

Source: *Respondent 3*

There's also a need for greater market awareness and education around the importance of Shari'ah compliance and authenticity.

Source: *Respondent 3*

The real essence of Islamic finance is to provide equity-based solutions that focus on risk-sharing, economic justice, and wealth circulation.

Source: *Respondent 5*

Stability is a fundamental requirement for any financial system, and Islamic finance should promote this through equity-based contracts and real investments

Source: *Respondent 5*

The most pressing reform is to move away from legalism and focus on value-oriented Islamic finance.

Source: *Respondent 5*

Islamic banks need to focus on developing new variants of Musharakah to make it more accessible, especially for SMEs, and ensure that these products remain true to the principles of Islamic finance—equity, justice, and long-term development.

Source: *Respondent 6*

the concept of Maqasid al-Shari'ah—especially in relation to wealth—plays a crucial role in determining the acceptability of Islamic financial products. When it comes to Diminishing Musharakah, Commodity Murabahah, and Currency Salam, all of these products must be examined closely against the principles of circulation (rawaj), clarity (wuduh), stability (thubat), justice (adl), and growth (tanmiyah).

Source: *Respondent 7*

I believe Islamic financial products must contribute to sustainable development, both socially and economically.

Source: *Respondent 7*

The future of Islamic financial innovations must be guided by the core principles

of Maqasid al-Shari'ah.

Source: *Respondent 7*

More transparency and better alignment with the Maqasid al-Shari'ah, particularly justice and development, is essential.

Source: *Respondent 8*

The first step is to move away from a legalistic approach that focuses only on Shari'ah compliance and to adopt a more value-oriented framework. This means that Islamic finance should not just aim to be technically compliant with the law, but it must embrace the ethical and moral principles of Islam, focusing on justice, equity, and risk-sharing.

Source: *Respondent 9*

Risk-sharing contracts like Musharakah and Mudarabah must be prioritized over debt-based instruments like Commodity Murabahah, which often result in excessive debt.

Source: *Respondent 9*

Islamic financial institutions need to integrate the principles of Tawhid, justice, and social responsibility into every aspect of their operations. A holistic approach to Shari'ah governance is essential, where the Shari'ah board works alongside regulators to promote not just compliance but also ethical behavior and social good.

Source: *Respondent 9*

The role of Islamic finance should be to encourage risk-sharing and equity-based investment, but by relying too much on products that mirror conventional debt structures, we risk stifling true economic development.

Source: *Respondent 1*

To ensure greater alignment with the true objectives of Maqasid al-Shari'ah, Islamic finance must move beyond the replication of conventional financial products.

Source: *Respondent 1*

The focus should shift towards developing equity-based contracts like Musharakah and Mudarabah, which are more in line with the Shari'ah principles of fairness and risk-sharing.

Source: *Respondent 1*

Islamic banks need to re-evaluate their role in the economy. They should stop competing purely on profit maximization and instead focus on socially responsible investments that contribute to the welfare of society.

Source: *Respondent 1*

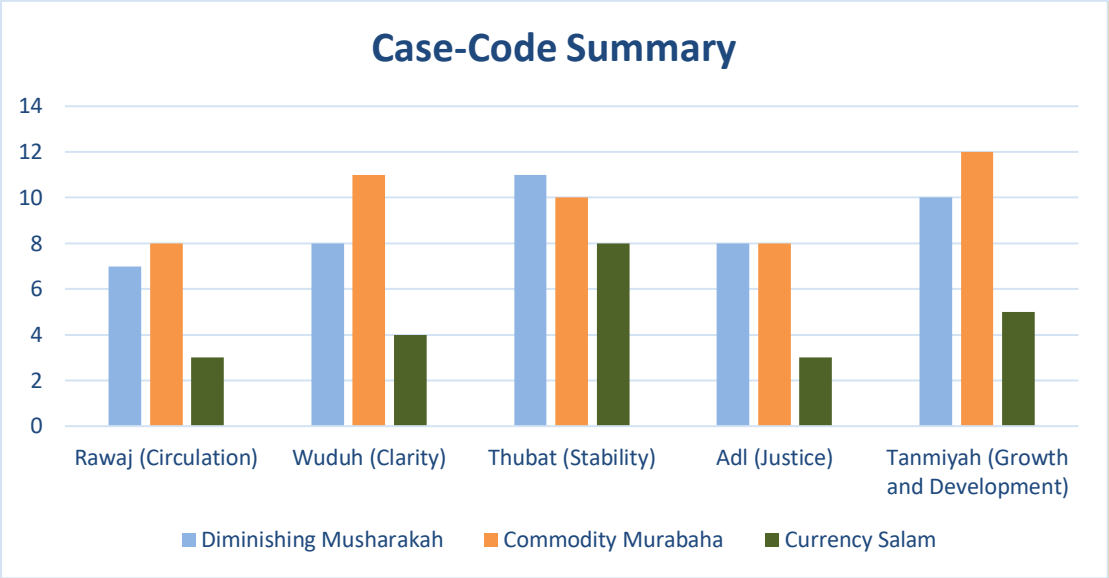
The capitalistic framework must be questioned, as it leads to financial inequality.
Source: *Respondent 1*

A holistic approach is needed, one that addresses both the financial system and the economic objectives in light of Islamic ethics. It's also crucial for Shari'ah scholars to engage more deeply in economic analysis to ensure that Islamic finance products genuinely reflect Islamic values, not just in form but also in substance.
Source: *Respondent 1*

4.4 Conclusion

Several themes of undesirable consequences in its economic role were identified in each case i.e. diminishing Musharakah, commodity Murabahah, and currency Salam. The undesirable consequences in case of diminishing Musharakah considered against protection of wealth as discussed in *Maqasid al-Shari'ah* theory are creation of exponential debt, concentration of wealth, financial harm, and nontranspareny. The consequences in case of commodity Murabahah are creation of exponential debt, concentration of wealth, and instability and inflationary expansion. The consequences of currency Salam include instability and inflationary expansion, and financial harm.

Parameter	**Diminishing Musharakah**	**Commodity Murabaha**	**Currency Salam**	**Total Quotations**
Rawaj (Circulation)	7	8	3	18
Wuduh (Clarity)	8	11	4	23
Thubat (Stability)	11	10	8	29
Adl (Justice)	8	8	3	19
Tanmiyah (Growth and Development)	10	12	5	27
	44	**49**	**23**	**116**



Chapter 5: Conclusion and Recommendations

Due to time constraint unavailability of participants this pilot study is based on a single interview conducted from a *Shari'ah* scholar who is also a practitioner. The

5.1 Realization of the Research Objectives:

NM JDC JSD

5.2 Limitation of the Research:

ASBMBASCJAD

5.3 Policy Implication and Recommendations:

BNKDBSJBLDJK

5.4 Contribution of the Research:

SDFRGE

5.5 Suggestions for Further Research:

DSFRFER